Delaware State Treasury
State Treasurer Chip Flowers

Delaware Economic Index

As of November 1, 2012

STATE ECONOMIC CLIMATE OVER PAST 60 DAYS

FAIR

LEGEND FOR ECONOMIC CLIMATE

STRONG | MODERATE | FAIR | WEAK | SEVERE

National Economic Trend: Slow Growth

SPECIAL FEATURE

About the Fiscal Cliff

KEY HIGHLIGHTS

An Analysis of the U.S. "Fiscal Cliff" Scenario.
See page 2

Unemployment rate remains steady.
See page 3

Regional manufacturing rebounds.
See page 6

Delaware Stock Index increases by 2.01%.
See page 8

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SPECIAL FEATURE

About the Fiscal Cliff

The "fiscal cliff" refers to a series of federal budget changes scheduled to take effect at the beginning of 2013. These budget changes would result in reduced federal spending and increased taxes, the combination of which may lead to a substantial reduction in economic growth according to mainstream economists. However, the net effect of these changes would be to reduce the federal deficit.

The President and the U.S. Congress can avert some, or even all, the effects of the fiscal cliff if a deal is reached prior to the end of the year.

Here are the key factors (a combination of federal policies and budget expenditures) involved in the fiscal cliff:

- **Sequestration.** During the debt ceiling showdown in the summer of 2011, President Obama and Congressional leaders agreed on a series of automatic budget cuts that would begin to take effect in early 2013. The idea was to encourage the two branches of government to reach a broader and more practical deal on federal deficit reduction by imposing the threat of automatic budget cuts with certain programs exempted. However, no such deal has been reached. Sequestration consists of $1.2 trillion in federal spending reductions over 10 years, with half of the savings coming from cuts in defense spending and the other half in non-defense domestic spending.

- **2010 Tax Cuts.** In December 2010, President Obama and Congress agreed to extend the tax cuts passed under President George W. Bush for another two years. Payroll taxes paid for Social Security were reduced by 2% as well for a year, and this tax cut was extended for another year in 2011. Both the income and payroll tax reductions are scheduled to expire at the end of 2012. Moreover, the Alternative Minimum Tax ("AMT") was amended to avoid more middle-class families triggering this higher tax rate. This AMT provision applied to the 2011 tax year. If this is not extended retroactively for 2012, many families will face higher taxes when they file their 2012 returns next year.

- **Medicare Sustainable Growth Rate.** Known as the "doc fix" in Washington, this provision to reduce Medicare spending on doctors has consistently been deferred since its passage in 1997. This provision is also scheduled to take effect in January 2013.

- **Unemployment Benefits.** The 2010 tax deal included an extension of unemployment benefits that will expire in January 2013. If the President and Congress are unable to reach a deal, the many individuals will no longer qualify to receive unemployment benefits.

The non-partisan Congressional Budget Office estimates the following would be the effect of going off the fiscal cliff in 2013:

- $103 billion reduction in federal expenditures;
- $560 billion decrease in the federal deficit for Fiscal Year 2013;
- An increase of $399 billion in tax revenues and another $105 billion that mostly would come from increased taxes; and
- U.S. economic growth would be 0.5% for calendar year 2013, with a 1.3% contraction in the first half of the year and potentially experience a 2.3% growth in the second half of 2013.

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Delaware Economic Early Warning System

STATE ECONOMIC CLIMATE OVER PAST 60 DAYS

FAIR

Key Rationale for Rating

- The state unemployment rate is 6.8%, which is the same rate noted in the previous Index.
- Delaware home prices increased in all three counties. Total home sales increased in Sussex and New Castle County, but declined in Kent County.
- The Regional Consumer Price Index returned to showing an increase in prices.
- The Federal Reserve's Beige Book showed improving, but still moderate economic growth in the Philadelphia region, which includes Delaware. Manufacturing declined, but retails sales grew modestly and auto sales were strong. New home sales slowed down, but sales of existing homes grew substantially. There was a decrease in real estate leases and weak demand for construction. The service sector was mixed. Most sectors grew modestly, but there was growth in tourism and a slowdown in the defense sector. Overall, respondents' outlook improved from the previous Beige Book.
- Regional banks reported improved credit quality and increased lending.
- Regional manufacturing activity resumed growth after six months of decline as measured by the Federal Reserve Bank of Philadelphia's survey. However, Delaware firms account for only approximately 5% of the survey.
- The Federal Reserve Bank of Philadelphia's Coincident Index showed Delaware's economic activity as declining. However, the Leading Index increased and is now forecasting economic expansion through the first quarter of 2013.
- National consumer confidence increased to the highest level in several years in both the Conference Board and University of Michigan's surveys.
- The national economy continued to add jobs, albeit the rate of growth was moderate. The national unemployment rate in October was 7.9%, down from 8.3% in July.
- The four-week moving average of U.S. jobless claims was 367,250 for the period ended October 27, which is an improvement from 370,250 for the period ended August 25.
- In Delaware, new jobless claims increased since the previous Index. The four-week average is 923, up from 882.
- Delaware's portfolio, held and managed by the Delaware State Treasury, is $1.68 billion as of October 31, compared to $1.77 billion as of August 30.

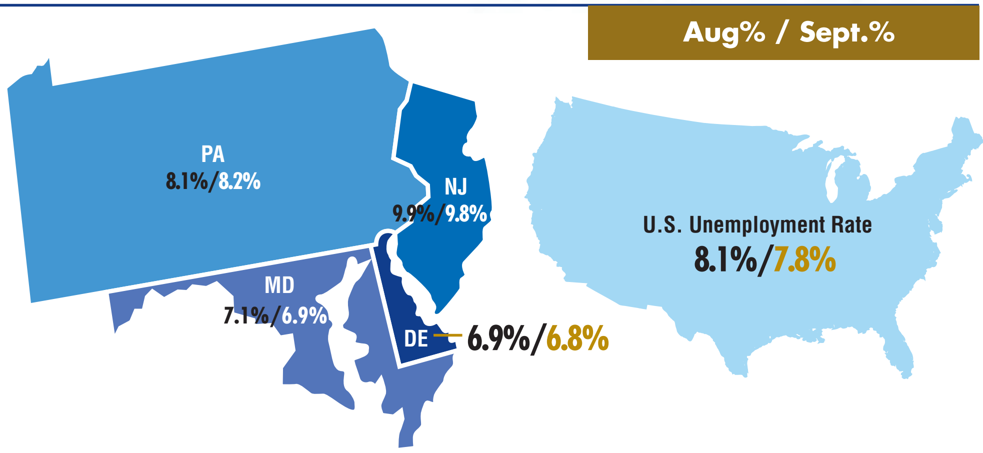
CONSUMER SECTOR

Employment

Delaware (Aug. 2012)	Delaware (Sept. 2012)
Labor force 437,946	Labor force 438,471
Employment 407,750	Employment 408,496
Unemployed 30,196	Unemployed 29,975
Unemployment rate 6.9%	Unemployment rate 6.8%

Regional Unemployment

August 2012 / September 2012



Sources: Delaware Department of Labor; New Jersey Department of Labor; Maryland Department of Labor, Licensing and Regulation; Pennsylvania Department of Labor & Industry, United States Bureau of Labor Statistics.

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Delaware Jobless Claims

Initial Claims Filed

Week Ended	Number
September 1	762
September 8	756
September 15	886
September 22	835
September 29	738
October 6	928
October 13	1,062
October 20	964

Four week average: 923
Eight week average: 866

Source: U.S. Department of Labor

Gas Prices

	Delaware	United States
November 1, 2012	$3.52	$3.54
One Week Ago	$3.60	$3.60
August 31, 2012	$3.75	$3.80
One Year Ago	$3.36	$3.45

Source: Delawaregasprices.com

Mortgage Rates

	As of Nov. 1, 2012	Week Prior
30-year fixed	3.39%	3.41%
15-year fixed	2.70%	2.72%
5-year ARM	2.74%	2.75%
1-year ARM	2.58%	2.59%

Source: Freddie Mac

Primary Mortgage Market Survey®

November 1, 2012

	30-Year	15-Year
Average Rate	3.39%	2.701%
Fees/Points	0.7	0.7

Next Rate Update: November 8, 2012

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Average Housing Sale Prices

	Sept.	July	Change
New Castle County	$228,000	$213,656	+6.71%
Kent County	$179,800	$178,559	+0.70%
Sussex County	$340,800	$313,245	+8.80%

Source: The NewsJournal

Consumer Confidence

Conference Board

Month	Index
October	72.2
September	68.4

Source: Conference Board

Rating Index
90 = Doing well
100 = Strong growth

University of Michigan

Month	Index
October	82.6
September	78.3

Source: University of Michigan

The Conference Board's consumer confidence reading reached its highest level since February 2008 while the University of Michigan posted its highest recording since February 2007.

Regional Consumer Price Index

	Aug-2012	Jun-2012	Change since June	Change since Aug. 2011
All Items	239.557	237.405	+0.9%	+1.4%
Core	247.763	245.678	+0.8%	+2.0%

The regional CPI covers the Philadelphia-Wilmington-Atlantic City Consolidated Metropolitan Statistical Area. In Delaware, it covers New Castle County. Core inflation is the inflation rate minus food and energy items.

Source: U.S. Bureau of Labor Statistics.

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BUSINESS SECTOR

Regional Business Outlook Survey Diffusion Indexes

The October Business Outlook Survey indicates a return to growth in the regional manufacturing sector for the first time in six months. However, survey respondents reported continued decreases in employment and hours worked. Both input and prices received increased in the past month. Regional manufacturing firms are optimistic about the next six months.

	Oct. 2012	Sept. 2012
General Evaluation	5.7	-1.9
New Orders	-0.6	1.0
Shipments	-0.2	-21.2
Unfilled Orders	-6.3	-8.2
Delivery Times	-15.9	-8.4
Inventories	2.1	-21.7
Prices Paid	19.0	8.0
Prices Received	5.4	-0.2
Number of Employees	-10.7	-7.3
Average Employee Workweek	-7.6	-7.3

The Business Outlook Survey is conducted monthly by the Federal Reserve Bank of Philadelphia to gauge manufacturing activity in the region.

Source: Federal Reserve Bank of Philadelphia

Small Business Optimism Index

The NFIB Small Business Optimism Index declined by 0.1 in September. It still sits at a level typically recorded during recessionary periods. Individual components of the Index were mixed.

Month	Index
September	92.8
August	92.9

Index Component	Net %	Change from Last Month
Plans to Increase Employment	4%	-6%
Plans to Make Capital Outlays	21%	-3%
Plans to Increase Inventories	-1%	0%
Expect Economy to Improve	2%	4%
Expect Real Sales Higher	2%	0%
Current Inventory	-1%	-1%
Current Job Openings	17%	-1%
Expected Credit Conditions	-7%	2%
Now a Good Time to Expand	7%	3%
Earnings Trends	-28%	1%

Source: National Federation of Independent Businesses

Producer Price Index

	Sept. 2012	Sept. 2011
Total	**+1.1%**	**+ 2.1%**
Except food and energy	0.0%	N/A
Foods	**+0.2%**	N/A
Energy	**+4.7%**	N/A

These are the Producer Price Index changes for finished goods. The index rose by 1.1% in September, which follows a 1.7% increase in August.

Source: U.S. Bureau of Labor

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Coincident Index

The Coincident Index for Delaware declined by 0.1% in September. The employment level remained stable while the unemployment rate fell, as did the average number of hours worked in the manufacturing sector.

Source Federal Reserve Bank of Philadelphia

The Coincident Index is issued by the Federal Reserve Bank of Philadelphia to summarize economic conditions in the region. An increase in a state's coincident index indicates an increase in such state's Gross Domestic Product (GDP) growth.

Area	Sept. 2012	1-Month Change	3-Month Change	12-Month Change
Delaware	142.9	-0.1%	-0.4%	0.3%
Pennsylvania	140.2	0.0%	-0.2%	1.6%
New Jersey	148.0	0.2%	0.5%	2.6%
US	151.7	0.2%	0.6%	2.8%

Leading Index

Delaware's Leading Index score was 0.7 in September, suggesting economic growth through the first quarter of 2013. The index of delivery times improved and initial unemployment claims decreased, but the number if building permits declined and the Coincident Index was in negative territory.

Source Federal Reserve Bank of Philadelphia

The Leading Index is issued by the Federal Reserve Bank of Philadelphia to predict the six-month growth rate of a state's Coincident Index.

Area	Sept.	Aug.	July
Delaware	0.7	-0.1	-1.2
Pennsylvania	0.3	0.0	-0.5
New Jersey	2.1	2.2	1.4
US	1.4	1.4	1.3

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FINANCIAL SECTOR

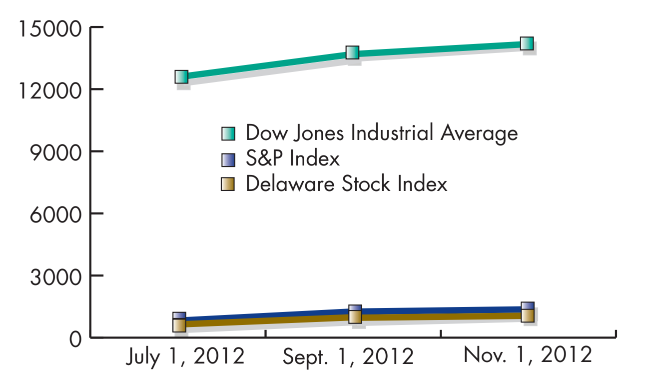
Stock Prices of Key Delaware Employers

Employer	Sept. 1 2012	Nov. 1 2012	% Change
Amazon.com Inc.	$248.27	$232.14	-6.50%
Ashland Inc.	$73.63	$73.34	-0.39%
AstraZeneca PLC	$46.79	$46.74	-0.11%
Bank of America Corp.	$7.99	$9.74	+21.90%
Barclay's PLC	$11.63	$15.44	+32.76%
Chesapeake Utilities Corp.	$46.83	$46.65	-0.38%
Citigroup Inc.	$29.71	$37.95	+27.73%
Comcast Corp.	$33.53	$37.55	+11.99%
Dover Downs Gaming & Entertainment Inc.	$2.50	$2.35	-6.00%
Dow Chemical Co.	$29.31	$30.11	+2.73%
DuPont	$49.75	$45.00	-9.55%
JP Morgan Chase & Co.	$37.14	$42.84	+15.35%
Kraft Foods Inc.	$41.51	$45.14	+8.67%
M & T Bank Corp.	$86.90	$104.51	+20.26%
Pepco Holdings Inc.	$19.31	$19.81	+2.59%
PNC Financial Services Co.	$62.16	$59.25	-4.68%
Rite Aid Corp.	$1.19	$1.11	-6.72%
Safeway Inc.	$15.65	$16.56	+5.81%
Siemens AG	$94.28	$102.01	+8.20%
Simon Property Group	$158.70	$152.55	-3.88%
Supervalu Inc.	$2.38	$3.26	+36.97%
Tanger Factory Outlet Centers Inc.	$33.55	$31.83	+5.13%
Verizon Communications Inc.	$42.94	$45.14	+5.12
Walgreen Co.	$35.76	$35.50	-0.73%
Wal-Mart Stores, Inc.	$72.60	$73.45	+1.17%
Wells Fargo	$34.03	$34.06	+0.08%
WSFS Financial Corp.	$40.57	$41.95	+3.40%
Delaware Stock Index	1,358.61	1,385.98	+2.01%
S & P 500 Index	1,406.58	1,427.59	+1.49%
Dow Jones Industrial Average	13,090.84	13,232.62	+1.08%

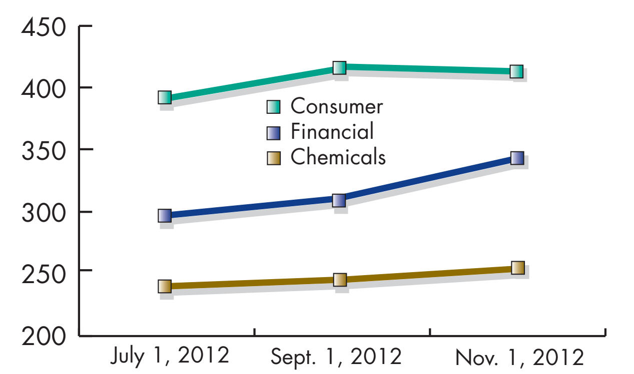
Source: Google Finance

Stock Index Comparison

Dow Jones, S&P and Delaware Stock Indexes



Delaware Stock Index by Sector



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Treasury's Portfolio Balances
As of October 31, 2012

Portfolio	Market Value	% of Total
Liquidity A/Cs:		
BNYM Cash Inv Strategies	$86,289,837.63	5%
JP Morgan Res & Cash	$243,226,054.56	14%
Wells Capital Liquidity	$220,063,347.57	13%
Wilmington Trust Liquidity	$230,468,147.45	14%
Intermediate Accounts:		
Schroder's Interm	$766,862,672.48	46%
Schroder's L&W Endowment	77,945,029.67	5%
Schroder's Health Fund Endowment	$55,646,313.31	3%
Total:	**$1,680,501,402.67**	**100%**

Source: Delaware State Treasury

Key Interest Rates

Rate	10/31/12	Month Ago	Year Ago
Wall Street Journal Prime Rates	3.25%	3.25%	3.25%
Federal Discount Rate	0.75%	0.75%	0.75%
Fed Funds Rate	0.25%	0.25%	0.25%
Bond Buyer's 20 Bond Index	3.68%	3.67%	4.12%
1 Month LIBOR Rate	0.21%	0.22%	0.25%
3 Month LIBOR Rate	0.31%	0.35%	0.43%
6 Month LIBOR Rate	0.54%	0.63%	0.62%
1 Year LIBOR Rate	0.88%	0.97%	0.93%
Call Money	2.00%	2.00%	2.00%

Source: Bankrate.com

U.S. Treasury Department Bond Rates

	4 Weeks		52 Weeks	
Date	Bank Discount	Investment Yield	Bank Discount	Investment Yield
Sept. 1, 2012	0.12	0.12	0.17	0.17
Nov. 1, 2012	0.06	0.06	0.17	0.17

Source: U.S. Treasury Department

Key Benchmark Exchange Rates
As of November 1, 2012

Currency	Value (in U.S. Dollars)	Change (from previous Index)
Euro	$1.2937	+2.84%
British Pound	$1.6127	+1.55%
Japanese Yen	$0.0125	-2.34%
Australian Dollar	$1.0397	+0.72%
Canadian Dollar	$1.0037	-1.07%
Swiss Franc	$1.0727	+2.39%
Chinese Yuan	$0.1602	+1.71%

Source: Google Finance

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National Manufacturing

National economic activity in the manufacturing sector expanded in October for the second consecutive month. The PMI increased to 51.7, up from 51.5 in September. The New Orders Index grew for the second consecutive month while the Production Index returned to positive territory after two months of decline. The Employment Index and Prices Index continued to grow, although both saw their rates of growth slow. Survey respondents expressed concerns over the global economy and a relatively low number of orders in many manufacturing sectors.

Index	Series Index June	Series Index May	% Point Change	Status	Rate of Change	Trend* (Months)
PMI	51.7	51.5	+0.2	Growing	Faster	2
New Orders	54.2	52.3	+1.9	Growing	Faster	2
Production	52.4	49.5	+2.9	Growing	From Contracting	1
Employment	52.1	54.7	-2.6	Growing	Slower	37
Supplier Deliveries	49.6	50.3	-0.7	Faster	From Slowing	1
Inventories	50.0	50.5	-0.5	Unchanged	From Growing	1
Customers' Inventories	49.0	49.5	-0.5	Too Low	Faster	11
Prices	55.0	58.0	-3.0	Increasing	Slower	3
Backlog of Orders	41.5	44.0	-2.5	Contracting	Faster	7
Exports	48.0	48.5	-0.5	Contracting	Faster	5
Imports	47.5	49.5	-2.0	Contracting	Faster	3

Source: ISM Report on Business

National Non-Manufacturing

National economic activity in the non-manufacturing sector grew in September for the 33rd consecutive month. The NMI stood at 55.1, an improvement from 53.7 in August. The Business Activity Index and New Orders Index both improved but the Employment Index, while remaining in positive territory, declined, indicating a slower rate of job growth. Prices increased over the past month. Overall, survey respondents held mixed views, but positive sentiment was more common than negative sentiment.

Index	Series Index June	Series Index May	% Point Change	Status	Rate of Change	Trend* (Months)
NMI/PMI	55.1	53.7	+1.4	Growing	Faster	33
Business Activity/Production	59.9	55.6	+4.3	Growing	Faster	38
New Orders	57.7	53.7	+4.0	Growing	Faster	38
Employment	51.1	53.8	-2.7	Growing	Slower	2
Supplier Deliveries	51.5	51.5	0.0	Slowing	Same	2
Inventories	48.5	52.5	-4.0	Contracting	From Growing	1
Prices	68.1	64.3	+3.8	Increasing	Faster	3
Backlog of Orders	48.0	50.5	-2.5	Contracting	From Growing	1
New Export Orders	50.5	52.0	-1.5	Growing	Slower	3
Imports	50.0	49.5	+0.5	Unchanged	From Contracting	1
Inventory Sentiment	65.0	67.0	-2.0	Too High	Slower	184
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A

Source: ISM Report on Business

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OTHER ECONOMIC ACTIVITY

Recent Economic Activity

- Fisker Automotive announced it would delay production of the Fisker Atlantic car until 2014 or 2015. Also, A123 Systems, Inc. (a major supplier of batteries to Fisker Automotive) filed for bankruptcy. A123 Systems was purchased in bankruptcy by Johnson Controls during the Index period.
- DuPont announced plans to cut 1,500 jobs globally. The number of Delaware jobs impacted is unknown.
- Peninsula Regional Medical Center broke ground on the Delmarva Health Pavilion, a suite of medical offices, in Millsboro. Approximately 75-100 jobs will be created when the building is completed.
- Bank of America submitted a plan to the state to create a data processing center in Christiana. The center would employ an estimated 60-70 people. This would be the first in a three phase plan to build up Bank of America's presence in Christiana.
- Newark software company, SevOne, plans to add 122 employees in the coming years. SevOne has received a $484,218 performance-based grant from the Delaware Economic Development Office ("DEDO") to help achieve this goal.
- The Council on Development Finance voted to approve a DEDO proposed $10 million performance-based grant for Ashland, Inc. to create jobs and upgrade its facilities over the next five years. Ashland is still weighing the offer.
- County Bank announced it would close its branches in Seaford and Laurel by the end of the year. Those branch operations would be folded into the Georgetown branch.
- SDIX, a Newark bio-tech firm, sold its Food Safety and Genetically Modified Organism businesses to Missouri's Romer Labs for $13.5 million.
- The Delaware Electric Cooperative received approval to build a solar farm in Georgetown. 40 temporary jobs will be created during its construction.
- Wilmington law firm Connolly Bove Lodge & Hutz announced it is merging with Houston's Novak Druce + Quigg. The combined firm would create the nation's 7th largest boutique intellectual property firm. The parties hope to complete the merger by January 2013.
- Christiana Mall announced plans to open a 17-screen Cinemark theater by 2014.

http://treasury.delaware.gov/

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